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10. Organisational Behaviour Stream

Competitive Session

**The Relationship between Human Capital and Social Capital in
Professional-Client Relationships**

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10. Organisational Behaviour stream

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**The Relationship between Human Capital and Social Capital in
Professional-Client Relationships****Abstract**

Professionals in knowledge-intensive firms rely on their human capital and social capital to deliver value in their professional services to clients. In this study of corporate lawyers and clients, we examine the construct of knowledge acquisition, representing a professional's human capital, and its relationship with social capital. Quantitative analyses on the survey data reveal significant evidence of relationships between human capital and social capital. The application of both the human and social capital theories to the study of professionals therefore has the potential to advance our knowledge and understanding of the relationships between professionals and their clients.

Keywords: human capital, social capital, strategy, professional service firms, work performance

INTRODUCTION

The significance of professional work and its implications for client service has been an emergent interest in management studies literatures (Muzio et al., 2008). Despite the growth and changes in the business environment of professional services over the last 20 years (Adler and Kwon, 2008; Boon, 2010; Brock and Alon, 2009), extant literature on professional service firms has been primarily focused on aspects such as the institutional archetypes of professional service firms (Boon, 2010; Pinnington and Morris, 2003), and the internal characteristics of the firm for example in terms of its ownership (e.g., Greenwood et al., 2007), organisational structures (e.g., Hanlon, 2004), and human capital (e.g., Hitt et al., 2006). This suggests a gap in the literature for studies that investigate the business relationships between individual professionals and their clients.

Social capital theory illustrates the aspects of social structures and relations among actors (Coleman, 1988), and it nicely fits with the scenario of the dynamic relationships between

professionals and clients. Relationships between organisations are mediated by individuals (Gabbay and Leenders, 2001); and thus, the establishment and maintenance of client ties can be strongly influenced by the actions of individual professionals. Firms therefore have strong incentives to attempt to differentiate their services by creating a value-driven and relationship-based strategy between their professionals and clients (Malhotra and Hinings, 2010).

Notwithstanding the substantial literature on social capital produced in recent years, there have been fewer attempts to examine the operations of social capital in the context of professional service firms (Brock, 2012). In addition, while it is an undeniable fact that knowledge is essential for professionals (Flood, 2008; Robertson et al., 2003), there are still only a limited number of studies that address two concurrent issues: 1) the link between human capital and the creation of social capital, and 2) the implications of social capital on the professional's acquisition of new knowledge. Hence, the research questions addressed in this study are: *"To what extent does a professional's human capital create social capital required to initiate a relationship with clients?"* Similarly, *"To what extent does a professional's social capital create human capital to initiate and maintain relationship with clients?"* In this study, knowledge acquisition from client assignments is used as the proxy for human capital.

The paper is structured as follows: We first provide the theoretical background explaining the background literature on the human capital and the social capital theories. Following this, we elaborate on our hypotheses for the study. The method and findings of the study are subsequently outlined. Finally, we discuss the study's theoretical and practical implications, draw attention to the limitations, and recommend directions for future research.

BACKGROUND LITERATURE: HUMAN CAPITAL AND SOCIAL CAPITAL THEORIES

The perspective on human capital is applicable to professional service firms, and is consistent with Lowendahl's (2005) conceptualisation of the strategic management of professional service firms being portrayed as involving individual professionals and the collective acquisition of new

knowledge. Proponents of the human capital theory emphasise the importance of human beings as the repositories of knowledge (Becker, 1962; Buchholtz et al., 2003). Some examples of human capital indicators are the level of an individual's education, experience, intelligence, knowledge, prestige, and specific skills (Becker, 1962; Hitt et al., 2001; Monge and Contractor, 2003). This theory argues that individuals are the most important resources, and that individuals who have substantially made human capital investments, such as an investment in education, are more likely to gain benefits in the market, for example, gain an entry into the job market or obtain a promotion (e.g., Hitt et al., 2001). The findings are further predicated on the notion that employees, i.e., the human capital of the firm, possess knowledge of the organisations, and more importantly, they possess tacit knowledge of the firm and its internal and external relationships (Hitt and Ireland, 2002). This knowledge in turn enables the firms to achieve superior performance (Hitt and Ireland, 2002; McEvily and Chakravarthy, 2002). Essentially, maintaining human capital is a crucial issue as organisations use this to signal their credibility and competence (Pennings et al., 1998).

However, human capital can become obsolete, less valuable and may depreciate over time if it is not updated and new knowledge is not continuously acquired (Almeida and Carneiro, 2009). We focus on the microfoundation aspect of human capital at the individual level as the scope of focus of the construct of 'human capital' in this study (Wright and McMahan, 2011). We also use a direct assessment looking at 'knowledge acquisition' of the different types of knowledge and experience from client assignments as the proxy of human capital. This is in line with Banerjee's (2013) argument that human capital needs to be consistently built, and also with Wright and McMahan's (2011) call that human capital proxy must be specific or direct to reduce significant error variance in the measurement. For instance, Wright and McMahan (2011) highlighted that simply using years of education, a common proxy in measuring human capital, does not assess the education quality nor indicate the individual performance when completing the education. This has also been echoed by Coleman (1988) in the early years when he argues that human capital theory seems to be narrowly-focused by only considering an individual's investment (e.g., in education) and the returns on this investment.

Social capital possesses the characteristics of ‘capitals’ as defined by Marx (1849/1933): It is created and maintained by long-term investments; it is used to create a surplus value; and its value increases over time to reproduce other benefits in its cycle of reproduction. While social capital needs to be built and maintained, it is only enabled through the existence of networks of social relations. Social capital has indeed been viewed as aspects of social structures and relations among actors that have the capacity to promote certain actions by individuals within the structure and to facilitate beneficial outcomes for participants (Coleman, 1988). The theory of social capital from this perspective is that actors build networks of relationships or ties with others to achieve instrumental outcomes that may be difficult to achieve without the presence of ties, or alternatively that are achievable but only with difficulty. This is referred as the ‘structural dimension of social capital’ (Nahapiet and Ghoshal, 1998; Yli-Renko et al., 2001). The idea is stimulated by the fact that networks can provide opportunities or impose constraints on the actor to access resources.

However, because social capital is inherent to the networks of relations, in order to use it, actors also need to draw upon the cooperation of other actors in the network (Kilduff and Tsai, 2003). On many occasions, actors rely on their existing ties or networks with other actors whom they know or are referred to them by someone they know because they are aware of the level of cooperation from the other party. This refers to the ‘relational dimension of social capital’ (Nahapiet and Ghoshal, 1998; Yli-Renko et al., 2001) – it suggests that a relationship which is characterised by trust facilitates coordinative actions and avoids opportunism and malfeasance (e.g., Wu, 2008; Yli-Renko et al., 2001).

Existing literature on social capital, however, appears to be segregated into two different camps: one camp is involved in examining the structures of relationships (structural dimension) while the other depicts social capital as arising from relationships that are characterised by trusting attributes (relational dimension). In fact, the vast majority of studies on social capital has largely focused on the network structure of ties (e.g., Finsveen and van Oorschot, 2008; Stam and Elfring, 2008), but has downplayed the importance of the relational attributes of the tie (Kostova and Roth, 2003).

In an attempt to address this gap in the social capital literature, this study distinguishes the effects of the network structure of the tie and the attributes of the tie as reflections of the structural

dimension of social capital and the attributive (or relational) dimension of social capital, respectively (Nahapiet and Ghoshal, 1998; Yli-Renko et al., 2001). The argument here is that the normative attributes in a relationship such as trust and the more objective aspects of social network structures are distinct dimensions of one's social capital which need to be examined empirically (Yli-Renko et al., 2001; Prakash and Selle, 2004). As Leana and Pil (2006: 354) rightfully comment, "many researchers have recommended that the construct be defined more broadly to include not just the structure of relationships among actors, but also the character and content of those relationships". The two dimensions of social capital are therefore strongly inter-related; trust molds actors' social structures and structures generate trust (McEvily et al., 2003; Wu, 2008).

Predicting social capital: The role of knowledge acquisition

In an article by Klein et al. (2004), it has been highlighted that theory and research addressing 'how' network structures are created in the first place, are limited. In fact, network theorists are focused on the consequences of network structures rather than on the antecedents (Borgatti and Foster, 2003; Klein et al., 2004). While this research addresses a different angle on the problem than that of Klein et al.'s (2004) study, it commences with the same assumption that our knowledge of social networks is still limited given that we have not adequately considered how the creation of an initial social tie is facilitated.

This study argues from the point-of-view of the level of knowledge one acquires from one's relationships with others. Individual professionals and firms need to exhibit a high level of knowledge in servicing their clients' growing domestic and international business. Knowledge is seen as a source of power differentiating the firm from its competitors (Fincham et al., 2008). There is an escalating concern by firms to recruit the best professionals in the 'war for talent' (Sheth and Sobel, 2000) – those who supposedly have extensive knowledge and commitment to acquire further knowledge in the face of changing business landscape.

As such, individual professionals may succeed because they constantly acquire new knowledge and use it more effectively than others (Flood, 2008). Professionals' level of market

knowledge and technical knowledge are often traditionally used as criteria for clients to select their professional service providers, based on their knowledge in the way business is carried in different cultures and regulations. However, professionals' client-specific knowledge is increasingly becoming an important selection criteria as clients' needs often change in response to different market conditions. Thus, professionals who acquire more knowledge from their clients are more likely to form new network ties with existing and potential clients. Thus, the following hypothesis is formulated:

Hypothesis 1 (H₁). A professional's extent of knowledge acquisition from the work he/she has done for all his/her clients is positively associated with the extent of the professional's structural dimension of social capital.

Whitener et al. (1998) indicate that one of the factors in establishing a high-quality relationship is the exchange parties' impressions of the other's capabilities. Client quite often develop strong preference for the professional but this relationship is reciprocal in that the professional learns a lot about the client's needs, preferences, and priorities from such relationship. The relationship grows over time accentuated by the fact that the professional acquires new knowledge and passes any relevant knowledge for the client's benefit. As such, it is posited that knowledge an individual professional acquires from the work he/she has done is a determinant of the formation and continuation of a professional-client relationship. All else being equal, the extent of a professional's knowledge acquisition is more likely to lead to client developing a level of trust in the relationship.

Hypothesis 2 (H₂). A professional's extent of knowledge acquisition from the work he/she has done for all his/her clients is positively associated with the extent of the professional's attributive dimension of social capital.

Predicting knowledge acquisition: The role of social capital

A professional who has favourable network structures is more likely to be able to capture and benefit from the clients' depth and breadth of knowledge resources associated with the work. They are consequently able to learn about new information, practices, and techniques. They will be more aware of new updates with regards to regulatory changes. Their relationship with clients will provide

them with knowledge that will be beneficial for each individual client. Providing services to clients may further place the professional in a privileged position to learn sensitive information specifically pertaining to different industries and markets. In this manner, the professional would be able to gain unique and specific knowledge that has the potential to be leveraged to secure client contracts. Thus, it is hypothesised that:

Hypothesis 3 (H₃). The extent of a professional's structural dimension of social capital is positively associated with the extent of the professional's knowledge acquisition.

In relationally-governed relationships such as in professional-client relationships, exchanges that are characterised by trust enable information sharing that is crucial to building a stronger future relationship (Poppo and Zenger, 2002). In such a relationship, the client is more likely to engage the individual professional's service when there is a reasonable positive perception that the professional can be trusted in terms of whether he or she is reliable, honest, and demonstrates an attitude of 'affection' or concern for the client's situation. Such interactions between the service provider and the client also enable the creation of specialized knowledge of design and coordination, where more explicit and tacit knowledge is gained (Kogut and Zander, 1996). Trust and knowledge cannot be assumed as replacing each other; Tomkins (2001) instead sees knowledge as an indicator of the level of trust within the relationship. In essence, in a relationship that is characterised by attributes denoting trust, a professional becomes more likely to acquire new knowledge. Hence,

Hypothesis 4 (H₄). The extent of a professional's attributive dimension of social capital is positively associated with the extent of the professional's knowledge acquisition.

METHODS

Sample and Procedures

The data collection process involves several Australian law firms, including national firms and state-based mid-tiered law firms. The sampling frame consisted of lawyers in the firm and their choice of whom they regard to be their most important client. One hundred and twenty eight (128)

respondents responded to the study, comprising of 86 lawyers and 42 clients. The data is tested for non-response bias by conducting analyses of the lawyers with matched clients (42 of them) and the lawyers without matched clients (44 of them). T-tests revealed no significant differences between the samples. The data are then combined across lawyers and clients before reporting the aggregated data.

Measures

The structural dimension of social capital

The survey used name-generator type of questions for the structural dimension of social capital, by asking respondents to list the names of their contacts. In this way, a list of names of their contacts is generated, which ranges from one to five or as many listed by the respondent (Lin, 1999). The items of this scale are: (1) the centrality of the professional in their networks of clients ('Centrality'), (2) the strength of the ties between the professional and his or her clients, (3) the non-redundancy of ties amongst the professional's clients ('Non-redundancy'), and (4) the network diversity ('Diversity') in terms of the professional's areas of practice from client's assignments (Suseno et al., 2006). Equal weighting is given to each indicator; this is a recommended solution as there is no prior theory to rank the importance of these indicators as measures of a construct (Florin et al., 2003).

The Attributive Dimension of Social Capital

The instrument developed by McAllister (1995) was primarily chosen for the operationalisation of the 'Attributive Dimension of Social Capital'. The five-point Likert scale consists of fifteen variables to operationalise this construct: 'Rational Trust' (a three-item scale that summarises the extent to which a professional is perceived as being dedicated to the delivery of the work, is technically competent, and is prepared for the job), 'Moral Trust' (a five-item scale that indicates whether the professional can be relied upon for not delivering poor performance, is trusted or respected by other people and by the client's work associates, whether people need to monitor his/her performance closely, and whether he/she can be relied upon to keep his or her commitments), and 'Affective Trust' (a seven-item scale that summarises the degree to which a professional is

perceived as being affectively concerned about the client and/or the client's needs). Confirmatory factor analysis indicates $\alpha = 0.974$, suggesting good validity of the items to the construct (Hair et al., 1998).

Knowledge Acquisition

The operationalisation of 'knowledge acquisition' ('All Clients Knowledge Acquisition') using the different types of knowledge is assessed with statements that reflect the extent to which a professional has acquired knowledge from the work he/she has done for all clients (a total of 10 items). The questions are presented in a five-point Likert-type scale ($\alpha = 0.893$). Similar questions are posed to illustrate the construct of 'knowledge acquisition' from the most important client ('Specific Client Knowledge Acquisition').

Control Variables

Status, primary practice area, gender, location, career history, education, tenure in the firm, and size of the firm, are used as control variables in the study.

RESULTS

The hypotheses are tested using a series of regression analysis procedures, as well as by conducting Partial Least Squares (PLS) (Chin et al., 2003) using SmartPLS 2.0 software (Ringle et al., 2005). PLS is chosen as the method of testing, as it can take into account both formative and reflective scales. The constructs of 'All Clients Knowledge Acquisition', 'Attributive Dimension of Social Capital', and 'Specific Client Knowledge Acquisition', are shown as reflective scales in that the observed variables are caused by a common dimension or construct (Fornell and Bookstein, 1982). The construct of 'Structural Dimension of Social Capital', on the other hand, is shown as a formative scale in that the items representing the construct are independent and that the construct is the sum of the weighted scores of all the items (Fornell and Bookstein, 1982). In other words, the manifest variables (indicators) actually influence the construct and as such, the construct is considered as an index rather than an underlying factor (Diamantopoulos and Winklhofer, 2001).

Bootstrapping with 200 resamples is conducted to produce the t-statistics to indicate the statistical significance of the path coefficients. As per Muijs’ (2004) criteria for assessing the extent of fit (R^2), the following is noted: < 0.1 poor fit; 0.11-0.3 modest fit; 0.31-0.5 moderate fit; and > 0.5 strong fit. As shown in Table 1, all the hypotheses are supported.

Insert Table 1 about here

Hypothesis 1. This hypothesis states that, a professional’s extent of knowledge acquisition from the work he/she has done for all his/her clients is positively associated with the extent of the professional’s structural dimension of social capital (i.e., network structures). The coefficient of determination, R^2 , for H_1 is 0.198 which indicates that almost 20% of the variation in the ‘Structural Dimension of Social Capital’ is associated with the variation in the ‘All Clients Knowledge Acquisition’. This significant value at the $p<0.05$ level suggests a modest fit of the relationship between the two constructs (Muijs, 2004). The hypothesis is thus supported.

Hypothesis 2. This hypothesis predicts a relationship between a professional’s extent of knowledge acquisition from the work he/she has done for all his/her clients and the extent of the professional’s attributive dimension of social capital (i.e., trusting attributes in the relationship). Using the extent of fit criteria as suggested by Muijs (2004), an overall R^2 for this construct is 0.367, significant at the $p<0.05$ level, indicates that a moderate fit has been obtained and that H_2 is supported.

Hypothesis 3. This hypothesis states that, the extent of a professional’s structural dimension of social capital is positively associated with the extent of the professional’s knowledge acquisition. The path coefficient is 0.136, with t-value of 1.664, significant at the $p<0.10$ level. An analysis using regression reveals that the R^2 for this path is 0.223, significant at the $p<0.05$ level, which indicates a modest fit, supporting H_3 .

Hypothesis 4. This hypothesis states that, the extent of a professional’s attributive dimension of social capital is positively associated with the extent of the professional’s knowledge acquisition. The path

coefficient is 0.513, and t-value of 4.585, significant at the $p < 0.05$ level. An analysis using regression further reveals that the R^2 for this path is 0.354, significant at the $p < 0.05$ level, indicating a moderate fit of support for H_4 . The overall R^2 for the effect of a professional's knowledge acquisition is explained by 62.7% of the variation in his/her network structures and his/her trusting attributes with clients, significant at the $p < 0.05$ level. This suggests that a strong fit has been obtained, and that the variation in the construct of 'Specific Client Knowledge Acquisition' is due to the constructs of the 'Structural Dimension of Social Capital' and the 'Attributive Dimension of Social Capital'.

DISCUSSION AND CONCLUSION

Several key findings emerged from the study. First, in relation to the first research question, we find that knowledge acquisition appears to influence the extent of the development of trust in the existing relationships between professionals and their clients much more as compared to its influence on the development of new network ties between professionals and clients. This reflects the fact that knowledge that is acquired has a capacity for creating an advantage that 'deepens' an existing relationship, with clients continuously returning to use the services provided by their existing professionals, thereby forming the idea of 'clients for life' (Sheth and Sobel, 2000). Second, with regard to the second research question on the relationship between social capital and human capital, it appears that the extent of knowledge acquisition from client assignments is more contingent upon the extent of trust between professionals and their clients (i.e., the attributive dimension of social capital). This once again underpins the importance of having and building trust in the professional relationships with clients.

Third, there is strong support for the hypothesis that one's social capital through his or her network of relationships and the attributes of such relationships with the clients enables a greater return on one's human capital by acquiring more knowledge. This supports several existing research findings in that the ability of an individual professional to attract and retain their clients is dependent not only on its capability to provide high-quality services gathered from the extensive work that he/she has done from all clients, but also based on the trust in the relationships with his/her potential

and existing clients (Pennings et al., 1998). Indeed, one aspect of capability is insufficient without the other. Professionals need to expand their own networks and at the same time, build trusting relationships within those networks. Our finding in fact illustrates that the effect of the relational attributes of a relationship on the creation of human capital is stronger as compared to the effects of human capital in the creation of social capital in initiating a relationship with clients. In the latter case, there is also a definite interpretation that building social capital to initiate a relationship with clients requires much more efforts than solely relying on one's human capital.

A potential shortcoming of this study is its cross-sectional design. Data were collected at a single point in time, therefore potentially raising the questions about the directions of causality. In order to fully examine the dynamics of a professional's social capital derived from his or her interactions with the client, a longitudinal research examining such relationships could be done. Second, the study solely considers the positive view that social capital provides benefits for the actors. In retrospect, maintaining social capital involves cost, and social capital may also generate positive and negative consequences (Edelman et al., 2004; Willem and Scarbrough, 2006).

In conclusion, this study provides a useful investigation to advance our understanding of the link between social capital and human capital by empirically examining these constructs in the context of professional-client relationships. Findings of the study indicate that human capital (i.e., knowledge acquisition) creates social capital, and that social capital in turn facilitates the development of human capital. The application of both the human capital and social capital theory to the study of professionals therefore has the potential to advance our knowledge and understanding of the relationships and value added activities between professionals and their clients. In addition, we focus on contributing to the promising research on social capital by advancing the current state of knowledge about the nature and effects of social capital. Treating social capital as a uni-dimensional construct, focusing only on either the network structure of relations or the attributes of a relationship, tends to simplify this construct by not acknowledging the potential patterns of coexistence and interconnectedness between the two dimensions of social capital. The study thus draws attention to the importance of these social processes within professional-client relationships.

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TABLE 1 - Hypotheses Testing

Hypotheses and Relationships	Coefficients
H ₁ : All Clients Knowledge Acquisition -> Structural Dimension of Social Capital	β 0.446 t-value 6.503 R ² 0.198 (modest fit) H ₁ is supported (p < 0.05)
H ₂ : All Clients Knowledge Acquisition -> Attributive Dimension of Social Capital	β 0.606 t-value 5.609 R ² 0.367 (moderate fit) H ₂ is supported (p < 0.05)
H ₃ : Structural Dimension of Social Capital -> Specific Client Knowledge Acquisition	β 0.136 t-value 1.664 H ₃ is supported (p < 0.10)
H ₄ : Attributive Dimension of Social Capital -> Specific Client Knowledge Acquisition	β 0.513 t-value 4.585 H ₄ is supported (p < 0.05) R ² 0.627 (strong fit) R ² for the construct of 'Specific Client Knowledge Acquisition' indicates that the 'Structural Dimension of Social Capital' and 'Attributive Dimension of Social Capital' contribute separately in a statistically significant way, in explaining 62.7% of the variation in the construct of 'Specific Client Knowledge Acquisition'.